Dell Technologies Q3 FY'27 Earnings Call

Tuesday, November 24th, 2026

Paul

- Thanks everyone for joining us. With me today are Jeff Clarke, David Kennedy, and Tyler Johnson.

- Our press release and presentation are on our IR website. The presentation includes additional content that complements today's discussion.

- During this call, we'll refer to non-GAAP financial measures unless we say otherwise, and you can find reconciliations to the most comparable GAAP measures in our press release and presentation.

- Growth rates are on a year-over-year basis unless otherwise noted.

- We'll also make forward-looking statements based on our current expectations.

- These statements speak only as of today, and actual results could differ materially because of risks and uncertainties described in our presentation and SEC filings, including our most recent Form 10-K and Form 10-Q.

- We assume no obligation to update them.
- Now, I'll turn it over to Jeff.

Jeff

- Thanks Paul, and thanks everyone for joining us.

Q3 Highlights

- ***I am proud of how our team performed, delivering another record quarter with strong execution and growth across the business.***
- Revenue was a record $54.9 billion, up 103%. Diluted earnings per share was a record $9.45, up 265%.
- We generated $4.5 billion of cash flow from operations and returned a record $4.9 billion to shareholders.
- Our proven operating model, competitive advantages, speed to market, and ability to drive scale are all delivering compounding benefits.
- Our modernization efforts are driving significant operating leverage. Operating expenses were 7.0% of revenue, the lowest in our company's 42-year history.
- **ISG, our most profitable business, has grown significantly over the past several years and drives the vast majority of our growth and profit**.
    - In fiscal 2024, the year we began selling AI servers, ISG generated 38% of our revenue. Over the last four quarters, that contribution has increased to 68%.
    - The trend is even more pronounced within operating income, where ISG's contribution has gone from 54% to 83%, and I expect the trend to continue into our next fiscal year.
    - Over the same period of time, ISG's operating income rate expanded two points.

- We achieved that expansion despite the tremendous growth of AI servers, supported by strong growth in Dell IP Storage, the insatiable demand for compute, and the efficiencies generated by our modernization efforts.
- Technology is driving material business outcomes, and the demand for AI infrastructure and data center modernization remains strong.

- **As AI infrastructure becomes more complex, our competitive advantages strengthen, and our momentum accelerates.**
  - Our engineering and design capabilities are differentiated.
  - We develop purpose-built, bespoke solutions optimized for each customer's specific requirements, often working through many design iterations that contemplate not just the infrastructure, but the data center as a whole, design for power, cooling efficiency, and software.
  - Our technical teams are leveraging AI and the proprietary knowledge we've built over the last 13 quarters to streamline and accelerate the design work, allowing our engineers to deliver complex designs in hours and quickly work through a large number of iterations.
  - Our procurement capabilities and world-class supply chain are differentiated, especially in today's constrained supply environment.
  - In manufacturing, we fully test the complete solution at L11 and beyond, including full-rack power-up, thermal compliance, and scale-out and scale-up network validation before anything ships.

- Our deployment services teams can stand up a rack within 6 hours of delivery.
- Our on-site support services help customers achieve 99%+ utilization, with fewer spares than our competitors.
- Together, these capabilities get infrastructure live faster.
- On large deployments, we can deliver time-to-first-token four to six weeks faster than competitors while providing industry leading total cost of ownership.
- That allows customers to convert backlog into revenue sooner and more reliably.
- And of course innovation remains central to our advantage. In Q3, we were the first OEM to ship a fully liquid-cooled networking rack, extending our first-to-market leadership. We are now the only OEM shipping DLC 100% Scalable Units across compute, accelerators, and networking with a standard L11 rack design, and we will be shipping Storage liquid cooled L11 racks in the near future.
- The proof point is our orders momentum, $180 billion over the past four quarters, with a majority of our new orders based on Nvidia's Vera Rubin NVL72.
- We also led the industry with the launch of our AMD based PowerEdge R9815 and R9825 platforms, delivering 238 world records in industry benchmarks in the R9825 alone.

- **At the same time, AI technology continues to advance rapidly. Models have progressed from one-shot responses, to reasoning, to recursive capabilities, and now agentic systems that can act, manage, and orchestrate workloads.**

- As customer zero, we are moving from using AI as a tool and an advisor to using AI as an operator.
- The first wave of AI answered questions and delivered productivity improvements of 10% to 40%.
- In the use cases we're seeing, agents drive productivity improvements an order of magnitude better, 10x or more, by accelerating work and putting intelligence directly in front of decision-makers.
- Realizing those outcomes starts with strong leadership. Companies must simplify, standardize, and automate processes before digitizing them or augmenting them with intelligence.
- They must also modernize their data architectures, including semantic data layers that provide context around their data, and intellectual property.
- Agents generate significant token demand, increasing the need for modern, disaggregated infrastructure across AI and traditional servers, Dell-IP storage, data management solutions, and networking.
- While enterprise traction is accelerating, the vast majority of customers remain in the proof-of-concept and tool adoption phase.
- The broader agentic adoption opportunity is still ahead of us.

- Overall, AI and the quest for intelligence is expanding our TAM across our portfolio.
- This is no longer simply about IT budgets. Data centers are becoming value centers, driving growth, productivity, speed, and intelligence across the enterprise.

- ***Now, let's start with the results.***

Q3 Results

- ***Starting with ISG, revenue increased 198% to a record $42.0 billion. Operating income was $7.1 billion with an operating income rate of 17.0%.***
- ***In AI Servers, demand continues to accelerate.***
    - In Q3, we booked $60.2 billion in AI orders and recognized a record $22.0 billion in AI server revenue.
    - We exited the quarter with a record $132.3 billion of AI server backlog.
    - Behind every customer engagement and every order is a rigorous due-diligence process, resulting in a fully vetted backlog.
    - Every AI order is vetted for access to capital, end-customer quality, trade and export compliance, and access to land and power.
    - As I mentioned, each design is bespoke, optimized through multiple iterations with the customer. Through this tight collaboration, we know our customers well and have high conviction that our backlog will convert to revenue.
    - Our pipeline grew sequentially and remains multiples of our backlog. Again, after converting $180 billion over the past four quarters.
    - Additionally, our customer base and opportunity pipeline continues to diversify.
    - We now have over 7,500 Dell AI Factory customers.
    - Our customer base spans neoclouds, sovereigns, and enterprises.

- Within the neocloud segment, we remain highly selective about the partners we work with and the end customers supporting their demand.
- The global opportunity is expanding, as more data centers are built outside the United States. Across nearly every top country around the world, there are two to three sovereign projects.
- Enterprises were the fastest growing portion of our opportunity pipeline expansion sequentially, providing further evidence that enterprise AI adoption is gaining traction.
- Internally, we continue to invest in our capabilities — ensuring we maintain our competitive advantages, deliver value for customers and position for the substantial opportunity ahead.

- ***Moving to Traditional Servers, revenue was up 235% as demand remained exceptionally strong, supported by multiple growth drivers that are expanding our TAM.***
  - Enterprises increasingly recognize that compute is critical to both the growth and the operations of their business.
  - They are buying more compute to accommodate growing workloads, refreshing their installed base and modernizing their data centers to free up power and space to be positioned for the AI era.
  - Sequentially, we are seeing increased demand for CPU-based compute to support AI and inference workloads.

- Higher content continues to be a long-term, secular tailwind. Servers contain more compute value, with higher core counts, and greater memory and storage capacity, increasing the value of each system.
- Underneath all of this, cyber resilience and security are also driving refresh activity. Much of the installed base requires new hardware to meet current security and performance requirements. These needs cannot always be addressed through a software patch.
- We are executing very well in a supply constrained environment, and we expect to gain share this quarter.

- ***Turning to Storage, revenue was up 24%, as strong demand for our Dell-IP portfolio drove revenue growth and improved profitability.***
  - Storage has always been critical as enterprise workloads and data grow. In the AI era, it is becoming even more important as data grows at exponential rates.
  - Our storage opportunities are also expanding as AI evolves. AI workloads are creating new demand drivers like key-value caching, context layers, and agents that need to store data, memory, and state.
  - For an enterprise, its data is its intellectual property, but siloed and without context, it's just data.
  - Agents need that context, and that's why we have expanded the Dell AI Data Platform with a unified semantic layer and an enterprise knowledge graph. Together, they give nearly every application and agent the same trusted, current view of the business,

without rebuilding context from scratch on every query. This lowers token consumption, cuts compute costs and speeds time to production, all while keeping the customer's most sensitive data governed inside their own data center.

- Our storage offerings continue to expand, our Dell IP portfolio is resonating with customers and we expect to gain share this quarter.
- Demand for Dell IP Storage grew for the seventh consecutive quarter and our Dell-IP mix is at an all time high.
- Demand remained broad based, with exceptional strength in North America.
- We also continued to see strong demand for unstructured storage supporting AI workloads, with triple digit demand growth for the third consecutive quarter.
- PowerStore delivered record demand and has now grown double-digit or better for ten consecutive quarters.
- PowerFlex grew double digits for three consecutive quarters and Data Protection delivered double digit growth.
- Storage growth, greater scale, the mix shift to Dell IP and meaningful sequential improvements in profitability at the solution level continue to be significant drivers for ISG profitability.
- Our Dell-IP performance and accelerating pace of product development give us confidence in the opportunity ahead.

- ***Turning to CSG.***

- Revenue grew 3% in a softer PC unit market as the industry adjusts to higher price points.
- Customers are prioritizing their budgets near-term to servers and storage, electing to defer some PC-related refresh.
- The installed base continues to age, building deferred demand that we expect to refresh in the future.

Close

- ***In closing, we* continue to deliver a record year, with record revenue, EPS, cash generation, and capital returned to shareholders.**
- The demand environment we see today remains strong and has not changed.
  - Sophisticated customers are planning years in advance - giving us better visibility into future demand.
  - AI server demand continues to accelerate, supported by a broadening customer base and expanding global opportunity.
  - Our record $132.3 billion of AI server backlog has been fully vetted through our rigorous due-diligence process.
  - Traditional server demand remains strong, benefiting from traditional workload growth, an aging installed base, heightened security requirements, and growing AI inference demand.
  - Dell IP Storage continues to grow and drive incremental profitability.

- As AI infrastructure becomes more complex, our competitive advantages are more pronounced and our TAM expands, increasing the need for modern, disaggregated architecture.
- Infrastructure demand continues to outpace supply. As we look into next year, the gap between component supply and end-user demand continues to widen. Our world class supply chain is well positioned to navigate these constraints and deliver for customers.
- Our operating model, speed to market, growth, and ability to drive scale are producing compounding benefits across the business.
- Together, these drive significant cash flow, shareholder return, and long-term value for our shareholders.
- I'm proud of the team's performance and expect momentum to carry into next year.
- With that, let me turn it over to David to walk through the financials and our outlook.

David

- Thanks Jeff.
- The team executed exceptionally well, driving record revenue, record EPS, and record shareholder returns.
- These results demonstrate the strength of our operating model, which is driving growth, expanding profitability, and generating significant cash flow.
- Total revenue was up 103%, to $54.9 billion.
- Gross margin dollars grew 105%, to $11.7 billion.
- Gross margin rate was 21.2%, up 10 bps.

- Operating expenses were up 20% to $3.8 billion, primarily due to variable compensation tied to our outperformance. We continued to drive significant operating leverage, with Opex down 480 bps to 7.0% of revenue.
- Operating income grew 213%, to $7.8 billion.
- Operating income rate increased 490 bps to 14.2% of revenue, driven primarily by scale and pricing discipline, despite the impact of record AI mix.
- Net income was up 245% to $6.1 billion, primarily driven by strong operating income.
- Diluted EPS increased 265% to a record $9.45.
- ***Moving to ISG.***

ISG

- ISG delivered record revenue of $42.0 billion, up 198%, marking the eleventh consecutive quarter of double-digit or better revenue growth.
- AI server momentum continued to accelerate, with:
    - $60.2 billion in orders, our 2nd quarter with orders above $60 billion;
    - a record $22.0 billion in revenue;
    - and $132.3 billion in ending backlog, all of which has been subject to our rigorous review process.
    - To expand on Jeff's comments, every customer goes through a credit oversight and due-diligence process, supported by DFS's risk management team.
    - We evaluate the company, its financial capacity, and its underlying end-user contracts.

    - We run the due diligence process at two key points - when we agree to the purchase order and again before production begins - helping us actively manage risk.
    - When we use DFS financing, it is selective and short-term, bridging the customer from purchase order to cluster go-live.

- Traditional server and networking revenue was a record $15.0 billion, up 235%.
- Storage revenue was $4.9 billion, up 24%, with strong demand across our Dell-IP portfolio driving revenue growth and significant margin contribution.
    - Our margin rich Dell-IP storage demand has grown for seven consecutive quarters, and our Dell-IP mix is at a record high.
- ISG's Q3 operating income surpassed what we delivered in FY26 and was a record $7.1 billion, up 308%, marking the tenth consecutive quarter of double-digit or better growth.
- Operating margin was 17.0%, up 460 bps, primarily driven by scale.
- Building on last quarter, the benefits of scale continue to improve profitability across the entire portfolio.
- You're seeing that scale in the decoupling of revenue growth and operating expenses, driven by two factors:
    - Strong demand is supporting record revenue.
    - Additionally, our modernization efforts continue to drive operating expense efficiencies.
- We also maintained strong operational and pricing discipline in a dynamic environment, reflecting the team's strong execution and continued focus on supporting our customers.

- Most of these benefits are structural and are reflected in higher fourth-quarter margin rate expectations. However, rates will sequentially moderate as the benefit from a stronger North America sales mix normalizes.

CSG

- ***Turning to CSG.***
- CSG revenue was up 3% to $12.9 billion.
- CSG operating income was $0.7 billion, or 5.5% of revenue, roughly in-line with expectations.
- CSG provides important scale to our supply chain and drives significant cash generation given it's our most capital-efficient business.

Cash flow and B/S

- ***Moving to cash and the balance sheet.***
- We delivered another strong cash quarter, with cash flow from operations of $4.5 billion driven primarily by sequential revenue growth and higher profitability.
- We ended the quarter with $16.3 billion in cash and investments, up $2.0 billion sequentially, and our core leverage ratio is at 0.7x.
- We returned an all-time record $4.9 billion to shareholders this quarter, reflecting the second consecutive quarter of heightened shareholder return, averaging $4.6 billion against a $1.9 billion run rate last year.
- We repurchased 9.0 million shares at an average price of $488 per share and paid a dividend of approximately $0.63 cents per share.

- Additionally, the Board of Directors approved a $25 billion increase in our share repurchase authorization, reflecting our confidence in continued strong free cash flow generation, commitment to shareholder return and long-term value creation.
- We remain committed to our long-term capital allocation framework, including our commitment to return at least 80% of Adjusted free cash flow to shareholders.

Guidance

- ***Turning to guidance.***
- Given the momentum we're seeing in ISG, we're raising our fourth-quarter revenue growth and non-GAAP diluted EPS expectations.
- We expect $56.25 billion revenue at the midpoint, up 69% Y/Y, driven by ISG growth of roughly 120% with AI Server revenue up sequentially to roughly $23.5 billion. Traditional Servers continues to grow triple digits with Storage growing in the low teens.
- Operating expense is expected to remain roughly flat sequentially and just under 7% of revenue.
- We expect Operating Income rate to be roughly up 175 basis points, with both ISG and CSG similar year over year.
- We anticipate a diluted share count of roughly 634 million shares and I&O of roughly $450 million.
- Diluted non-GAAP EPS is expected to be $8.40 at the midpoint, up roughly 115%.
- Our Q4 guidance implies a **record FY27**, with record revenue of $202 billion, up nearly 80%.

- Full year operating income rate is expected to be up roughly 350 basis points and is well above our expectations entering the year.
- Importantly, we expect this expansion despite the mix pressure of $78 billion in AI server revenue, more than three times larger than last year.
- Non-GAAP diluted EPS is expected to be $29.68, up nearly 190% at the midpoint.
- **And briefly on FY28 ...**
- As Jeff mentioned, demand in ISG remains robust, and growth will be driven by multiple demand vectors.
- AI Server demand continues to accelerate, and we will be well positioned to capture that growth.
- Data center modernization will drive growth in both Traditional Servers and Storage.
- Traditional workloads and data keep growing, aged installed bases need refreshing, and customers are hardening cybersecurity.
- At the same time, inference and agentic workloads are extending infrastructure demand into Traditional Servers and Storage.
- Within a supply constrained environment, we continue to prioritize ISG.
- While we expect the PC unit environment to remain soft next year, the impact is manageable given the strength of our Infrastructure business.
- While the base is much higher, the EPS levers we outlined at our Investor Day roughly a year ago remain the same.

- We continue to focus on revenue growth, margin accretion, and operating leverage, which together drive significant cash generation and shareholder returns.

Close

- ***In closing,*** we delivered another exceptional quarter, with record year to date results.
- Over the past three quarters:
    - Revenue was $145.8 billion, up 82%.
    - Diluted EPS grew 231% to $21.32.
    - We generated record cash flow from operations of $10.8 billion and returned an all-time record $11.2 billion to shareholders.
- The team executed exceptionally well with growth across the business.
- ISG demand remains robust, and in a supply constrained environment, we continue to prioritize Storage and Servers.
- The modernization work we've been driving for the past several years helped drive operating expenses to 7% of revenue, an all-time low in our 42 year company history, while strengthening our competitive advantages across innovation, go-to-market, services, and supply chain.
- We remain focused on capital efficiency and cash generation.
- We're excited about Q4 and remain confident in our ability to create long-term value for our shareholders as we go into next year.
- Thank you to the team for their execution, and thank you all for your time today.
- Now I'll turn it back to Paul to begin Q&A.